Utah International Inc.

Utah International

Annual Report 1971

Financial Highlights

	1971	1970	1969
Net income[1]	$ 35,501,000	$ 30,273,000	$ 26,723,000
Depreciation, depletion and amortization	$ 8,356,000	$ 6,815,000	$ 8,293,000
Earnings per common share assuming full dilution[2]	$ 2.45	$ 2.11	$ 1.93
Cash dividends per share	$ 0.75	$ 0.65	$ 0.56[3]
Stockholders' equity per share	$ 16.84	$ 14.72	$ 10.03
Stockholders' equity	$241,224,000	$207,495,000	$129,555,000
Common shares outstanding (net of treasury shares)	14,321,517	14,100,015	12,916,942
Number of stockholders	6,496	6,095	5,501

Note (1) Includes extraordinary items of $1,355,000 after tax in 1971 and $1,844,000 after tax in 1969 ($0.09 per share assuming full dilution in 1971 and $0.13 in 1969).
Note (2) Earnings per common share on weighted average shares outstanding were $2.50, $2.27 and $2.07 for 1971, 1970 and 1969, respectively.
Note (3) Adjusted to give effect to the February, 1969 three-for-one stock split effected in the form of a 200% stock dividend.

The object of interest on our cover is intrinsically worthless—literally a cinder. Resting on a crucible lid, it evidences the agglomerating and free swelling properties of one gram of powdered coal following heat treatment under laboratory controlled conditions. Technicians call it a "coke button." This specimen shows that the coal tested has good coking quality. The coal sampled came from the Bowen Basin in Queensland, Australia, where Utah Development Company is expanding its production of coking coal vitally needed in world markets.

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To Our Shareholders:

The 1970's began with a successful and eventful year for Utah International. In 1971 earnings and dividends continued to increase; the last of the company's construction activities was terminated; the name of the corporation was changed; and the prospect of sharply increased future earnings was brought close to realization with the completion of important new mining projects.

Financial

Earnings in 1971 rose to an all-time record of $35,501,000, higher by 17.3% than the $30,273,000 earned in 1970. The 1971 results include an extraordinary item of $1,355,000. Excluding the extraordinary item, 1971 earnings were 12.8% above the prior year's profits. On a fully diluted basis these results are equivalent to $2.45 a share for the year including the extraordinary item and $2.36 a share without it, as compared with $2.11 in 1970. This is the seventh consecutive year in which Utah International has achieved a new record level of profitability, and the eighth in which earnings have increased over the prior year.

Dividends of 75 cents a share were paid in 1971, 15.4% more than the 65 cents a share paid in 1970. 1971 was the 21st successive year in which Utah's dividend payments to shareholders have increased.

Shareholders' equity increased by 16.2% to $241 million, this growth being derived from retained earnings and the conversion of subordinated debentures.

Operations

Mining and ocean shipping, including Utah's share of the profits of affiliates and subsidiaries, accounted for approximately 92% of Utah's net income in 1971. Higher earnings from coal mining, ocean shipping and land development more than offset lower earnings from iron ore, uranium and copper.

Land development profits rose sharply in 1971, more than doubling the results recorded in the prior year.

Construction activities were terminated during the year and all of the dredges were sold. Operations of the construction division were profitable, however, and including the gain on the sale of the dredges earnings in 1971 were at approximately the same level as in 1970.

Expansion

Four new projects were completed or substantially completed during 1971: a new uranium mill and open pit mine at Shirley Basin; the Goonyella coking coal project in Queensland, Australia; the Waipipi iron ore sands project in New Zealand, in which a Marcona subsidiary holds a 75% interest; and the new Island Copper mine and concentrator in British Columbia. Development of the new Peak Downs coking coal mine in Queensland was proceeding on schedule with completion expected around July 1972. Expansions were under way at the Mount Goldsworthy iron ore mine in Western Australia, Pima Mining Company's copper mine and mill in Arizona, the Blackwater coking coal mine in Queensland, and at Marcona Mining Company's iron ore mine, beneficiation plant and related facilities in Peru.

Name Change

With the discontinuance of its construction activities, and in order to emphasize the international character of its operations, the name of the company was changed from Utah Construction & Mining Co. to its present name, Utah International Inc.

Outlook

We enter 1972 with more than the usual uncertainties beclouding the business outlook. The U.S. dollar is at lower levels in relation to other currencies and this situation will have some impact on our profit margins in Australia, Canada and Peru. The trend of the Japanese economy and its ability to adjust to the changed international business situation may affect its suppliers of raw materials. Copper prices have weakened, and industrial unrest in Australia continues to hamper our operations.

Despite these problems, the prospects are excellent for Utah's business and earnings in 1972. The four major new facilities completed in 1971 will add their contributions to our profit stream and Peak Downs should provide additional coking coal profits in the last quarter of the year. Added capacity will cause uranium and copper earnings to rise. The market for Utah's coking coal appears strong with new sales to European customers bringing total demand up to our capacity to produce during the year.

Directors

Three new directors were elected to the Board during the year: Paul L. Wattis, Jr., following the death of Paul L. Wattis, a director since 1931; Fred J. Borch, chairman of the board and chief executive officer of General Electric Company; and Thomas D. Dee, succeeding Lawrence T. Dee, who retired after more than 25 years of service on the Board.

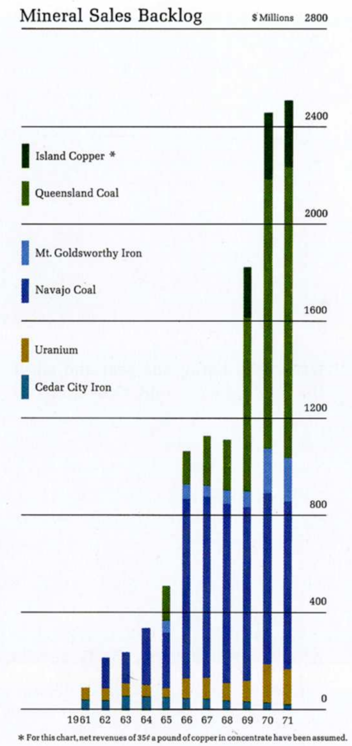
Staff

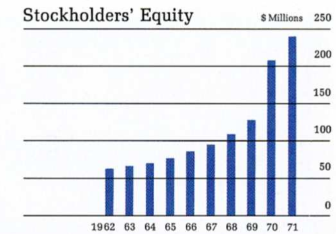
High tribute and deep appreciation are due our talented and dedicated management and technical staff and all of the loyal and hardworking employees of the company and its subsidiaries and affiliates in the United States and abroad. The gratifying results which we are able to report to you have been made possible because of their unflagging zeal and untiring efforts to assure the success of our enterprise.

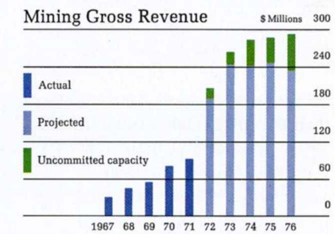
Sincerely,

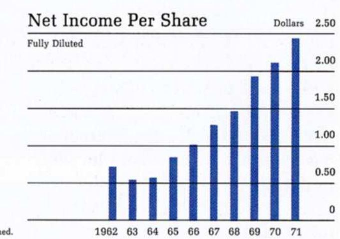
E. W. Littlefield
Chairman of the Board

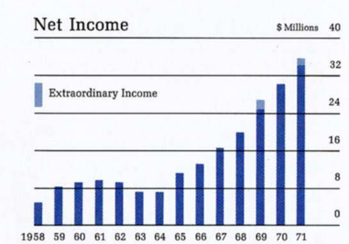
A. M. Wilson
President

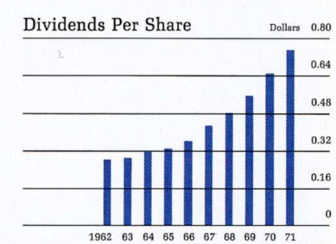












Utah International is primarily a mining company, employing surface mining methods in all of its operations. It engages directly in the production of steam coal (New Mexico), uranium oxide (Wyoming), iron ore (Utah) and copper concentrates (British Columbia, Canada). Through a 90% owned subsidiary, Utah Development Company, it mines coking coal and iron ore in Australia. A 46% owned affiliate, Marcona Corporation, mines and beneficiates iron ore in Peru and iron sands in New Zealand and operates a fleet of large ocean carriers, partly owned and partly chartered, for the transport of iron ore and beneficiated iron ore products, oil, coal and other bulk commodities. Pima Mining Company, in which Utah International holds a 25% interest, mines copper ore and produces concentrates from a deposit in Arizona.

Four new mines were brought into operation in 1971. The Goonyella mine in central Queensland commenced railing of coking coal in June and the initial shipment through the new port at Hay Point was made in mid-October. Production of copper concentrates from the Island Copper mine and mill in British Columbia began in October and the first cargo was shipped from the mine site dock on Rupert Inlet in December, following the close of the fiscal year. A new uranium mine and mill were started up in the Shirley Basin area of Wyoming, but because of increased stripping requirements occasioned by unfavorable pit wall conditions output did not approach normal levels until the end of the fiscal year. In New Zealand a project to produce concentrates from iron-bearing beach sands, in which Marcona holds a 75% interest through a subsidiary, was activated and its output was shipped in ocean carriers modified to utilize the new Marconaflo techniques of loading and discharge.

Under construction at the year end was the new Peak Downs coking coal mine in Queensland, scheduled for completion and production in mid-1972. Expansions of mining capacity were in progress at the Blackwater coking coal mine in Queensland, at Marcona's iron ore mine and processing facilities in Peru, at the Pima copper mine and concentrator, and at the Mount Goldsworthy iron ore project, one-third owned by Utah Development Company, in Western Australia.

Utah International's backlog of minerals sold under firm contracts for future deliveries by Utah International and Utah Development Company rose to $2.5 billion after adjustments for deliveries and price escalation during the year. These figures include a proportionate share of sales by Utah Development Company, but sales by affiliates, Marcona and Pima, are not included.

A continuing exploration program is directed at the discovery of new mineral reserves and mining opportunities to replenish reserves of minerals being progressively depleted by current mining operations and deliveries.

Details of the mining and related operations in which the company is interested are reviewed in the following operations report, by minerals produced, in the relative order of magnitude of their contribution to the company's earnings in 1971.

Coal

In 1971, for the second consecutive year, the mining and sales of coal, including steam and coking coals, contributed a larger proportion of sales revenues and after-tax earnings than any of the other minerals produced by operations in which the company is interested.

Steam Coal

Steam coal is produced from the Navajo mine, located on the Navajo Indian Reservation in the Four Corners area of northwestern New Mexico and first brought into operation in 1963. Deliveries to the nearby Four Corners Power Plant rose 24.5% from 5.47 million tons in 1970 to 6.81 million tons in 1971 and there was a commensurate increase in earnings.

1971 was the first full year of operation for generating unit No. 5

At Navajo steam coal mine, typical views of area of undisturbed land surface prior to mining (top), overburden material removed to uncover coal and piled in ridges rising 50 feet above original ground elevation, prior to re-grading (center), and mined area after levelling of overburden ridge piles by re-grading to normal contours with terracing to retain moisture and promote re-vegetation (bottom). Photographs are of different but representative areas at Navajo mine.

at the power plant. This unit and its twin unit, No. 4, carry nameplate capacity ratings of 755 megawatts, but experience indicates that each can be operated to a maximum capacity of 800 megawatts. To the extent that these units are operated at load factors exceeding 755 megawatts there would be an increase in the overall rate of consumption of fuel. The aggregate nameplate rating of the five units comprising the total plant is 2,085 megawatts.

The Navajo mine's entire output is presently committed to supplying the coal requirements of the Four Corners Power Plant under long-term contracts. This is a "base load" plant, designed to be operated at or near its full rated capacity as continuously as is practicable. Operation of the plant to date has not reached the load factor originally anticipated because of excessive downtime for maintenance and adjustment, with a correspondingly reduced "burn rate," or consumption of fuel. Early in the new fiscal year each of the first three generating units will be shut down briefly for installation of improved air pollution control equipment. The larger units 4 and 5 will be out of operation for approximately one month each for normal annual maintenance. These shutdowns are expected to result in some reduction in Navajo's deliveries and earnings for the fiscal year 1972.

Of the 1.1 billion tons of coal underlying Utah's Navajo leasehold, approximately 330 million tons are dedicated to supply the fuel requirements of the Four Corners Plant over a period of 35 years. This term may be extended to 50 years at the option of the utilities. 800 million tons of coal reserves, together with water available under a purchase agreement with the Department of the Interior, are as yet uncommitted.

Studies are in progress to determine the technical and economic feasibility of producing synthetic gas in commercial quantities from these reserves. In October 1971 Utah International, Pacific Lighting Service Company and Texas Eastern Transmission Corp. entered into an agreement for the conduct of such studies with completion scheduled for July 1, 1972. Utah will hold the uncommitted coal and water available until that date. Based on the results of the feasibility studies, if favorable, Pacific Lighting and Texas Eastern would consider constructing one or more gasification plants, utilizing the Lurgi process, on a site adjacent to Utah's Navajo leasehold. It is presently estimated that each of such gasification plants would consume 7.5 million tons of coal per year.

Coking Coal

Utah Development Company produces coking coal from two mines located in central Queensland, Australia. Its wholly owned Blackwater mine began export shipments in January 1968. The new Goonyella mine, in which Utah Development Company and Mitsubishi Development Company Pty. Ltd. hold interests of 85% and 15%, respectively, began production and shipments in 1971.

For the fiscal year 1971 Blackwater shipments were 2.8 million long tons as compared with 3 million tons in the prior year. Production and shipments were interrupted in 1971 by both industry-wide and local strikes, and strikes against the state-owned railroad.

In June 1971 increases were negotiated in the quantities of coking coal to be shipped to Japan from the Blackwater mine under long-term contract at a price that raised the overall average price. The new agreement provides that deliveries in 1972 will be increased by 700,000 tons to a total of 3,250,000 tons yearly, and that the average price of the total tonnage will be raised to approximately $12.50 a ton beginning January 1, 1972 as compared with the former price of $10.85 a ton. In 1973 the volume of shipments will rise further to 3,550,000 tons annually, the price

above left: In Goonyella mine opening ceremony on November 5 the Premier of Queensland, the Hon. J. Bjelke-Petersen (r), responds to presentation by Mr. A. M. Wilson (l), President of Utah Development Company. Mr. Chujiro Fujino, President of Mitsubishi Corporation, is seated at left. Mr. E. W. Littlefield, Chairman of Utah Development Company and Utah International, is at right.

above right: His Excellency the Governor General of Australia, Sir Paul Hasluck, officially opens Goonyella-Hay Point railroad as Mr. A. G. Lee, Queensland Railways Commissioner, assists.

below: On a sunny day, with coal preparation plant as backdrop, Goonyella opening drew an interested audience.

for the additional 300,000 tons to be agreed upon each year.

In June the Goonyella mine began railing coking coal to port stockpiles at Hay Point. First export shipments had been scheduled for July 1971. These were delayed until mid-October because of the belated completion of the port and loading facilities resulting from work stoppages and late deliveries and installation of equipment. A substantial port stockpile had accumulated by the time the first vessel loaded out in mid-October, making possible an accelerated rate of shipments thereafter.

Goonyella shipments in the last half of October brought the total tonnage of coking coal shipped from Blackwater and Goonyella combined, including Utah's 85% share of Goonyella's shipments, to approximately the same level as in 1970 when the Blackwater mine was the only producer. Coking coal revenues and pretax profits were both improved in 1971. Goonyella operated profitably from the start.

Long-term sales contracts provide that a total of 2.5 million tons of coking coal will be shipped from the Goonyella mine to Japan during the first twelve months of shipments. The rate of shipments to Japan is to increase to 4 million tons in the second year. Actual shipments in October 1971 and shipments on firm schedules during the first quarter, ending January 31, 1972, of the current fiscal year exceed contract requirements. In the last half of October, the final month of the 1971 fiscal year, an aggregrate of 240,000 tons was shipped to Japanese and European ports. Shipments already made and scheduled during the first quarter of fiscal 1972 total approximately 1,075,000 tons of which about 790,000 tons will be shipped to Japan and about 285,000 tons to European markets in Greece, Holland, Italy and Spain. In the remaining three quarters of the year approximately 2,000,000 tons are scheduled for shipment to Japanese buyers under long term contracts and about 1,000,000 tons are expected to move to Europe on spot sales. Absent any persistent labor problem in Queensland, shipments of Goonyella coal in 1972 should exceed 4,000,000 tons.

The Goonyella mine is operating above planned capacity and Utah has been obliged to refuse requests for additional spot sales and shipments in the first half of the 1972 fiscal year.

Located 35 miles south of the Goonyella mine, the new Peak Downs coking coal mine has been under development since early 1971. Construction is substantially on schedule and the mine should be brought into production as planned. The first shipment from Peak Downs is expected to be made in July 1972. Goonyella and Peak Downs will make common use of basic facilities including the mine-to-port railroad, the new port at Hay Point, and the town of Moranbah, all designed and constructed to the capacity required for this dual service.

Under provisions of firm contracts, as of October 31, 1971 Utah Development Company's backlog of sales of coking coal for future production and deliveries from these three mines over the next 13 years amounted to 93,800,000 long tons. Mining capacity and port facilities should be sufficient to permit Utah Development Company to market an additional 55,000,000 tons of coking coal from the three mines during the same period.

Exploration and development work are continuing in central Queensland's Bowen Basin to determine the extent of recoverable reserves of coking coal in the area. Findings to date indicate that reserves are sufficient to meet the requirements of the agreement with the Government of Queensland, and that Utah-Mitsubishi will therefore be authorized to mine and export a total of 300 million tons of coking coal. This tonnage is in addition to the 100 million tons which Utah Development Company is entitled to export from its Blackwater mine under the terms of the Blackwater lease.

The market demand for Utah's

above: Port facilities at Hay Point, Queensland, with railway unloading tippler (foreground), Goonyella coal stockpile (left center) and trestle and shiploader (background).

below left: *Yamahata Maru*, 35,000 dwt, being berthed at Hay Point to take on cargo of coking coal for Nippon Steel Corporation, Japan.

below right: Coking coal is mined from 20 foot thick seam and loaded into 100 ton capacity bottom dump haul units at Blackwater mine in Queensland.

Queensland coking coal is strong, and there are indications that it will remain strong. Further expansion of mining capacity and export facilities is accordingly being actively considered. Prospective new mine locations at Saraji, lying immediately south of the Peak Downs mine, and at Norwich Park, situated about 30 miles south of the Saraji area, are under investigation. Both appear to have excellent potential. Technical and financial studies have been completed with respect to the suitability of the Saraji site, the extent and quality of the coal reserves immediately accessible, the mining, railroad and port installations required, and the estimated capital investment cost. Similar feasibility studies will be initiated with regard to the Norwich Park area.

Iron Ore

Shipments of iron ore and beneficiated iron ore products from all sources, including the Iron Springs mine, Utah's 46% share of Marcona Corporation's shipments from Peru and New Zealand and Utah Development Company's one-third interest in shipments from the Mount Goldsworthy mine in Western Australia, totaled 6.95 million long tons in 1971, down 4% from the 7.24 million tons shipped in fiscal 1970. These shipments consisted of high grade direct shipping ore, pellets, iron ore concentrates and sinter feed. Iron ore operations overall were profitable, but at a lower level than in 1970 due to increased costs of production and shipping, higher exploration expense, work stoppages and the special costs incurred in starting up the new iron sands project in New Zealand.

The Iron Springs mine near Cedar City in southern Utah is the first mining venture undertaken by Utah for its own account, and is also the company's smallest mining operation. It employs modern methods and equipment, achieves a high level of efficiency, and has consistently contributed to the company's earnings. A feature of the project is a mobile concentrator of unique design, used for preliminary field beneficiation of alluvial ores prior to plant processing.

During 1971 Iron Springs shipped 528,000 short* tons of iron ore to United States Steel Corporation's Geneva Works near Provo, Utah, lower than the 600,000 tons shipped the year before, chiefly because of a strike against the railroad and a threat of strike against the steel company. In conjunction with the Iron Springs mining operation Utah International performs stripping and mining functions for CF&I Steel Corporation at its nearby Comstock Mine under a contract which runs until 1974. The combined Iron Springs-Comstock operations recorded earnings for the year at substantially the same level as in 1970.

Subsidiaries of Marcona Corporation produced iron ore from two sources. Utah's 46% share of Marcona Mining Company's shipments from Peru was 4 million tons, chiefly in the form of pellets and concentrates, as compared with 4.5 million tons in 1970. Periodic work stoppages interrupted mine production and plant operation in the first three quarters of Utah's fiscal year, but labor conditions improved after the government intervened and wage rates were stabilized by a combination of agreement with the unions and a cabinet decree. Production resumed nearly normal levels prior to the year end. The Marcona mining operation recorded a slight loss for the year, however, as the result of reduced output and shipments together with higher production and shipping costs.

In December 1970 Marcona Mining Company concluded a special contract with the government of Peru which assured that a contemplated $25 million expansion of the company's mining and processing facilities in that country would be accorded favorable tax treatment and other benefits under recent amendments to the mining code. The expansion program was accordingly authorized and

*Converted to long tons in the totals reported in the first paragraph of this section.

above left: Workmen are dwarfed by big bucketwheel reclaimer at port stockpiles of Mount Goldsworthy iron ore, Finucane Island.

above right: Operator keeps close watch on console and panel controlling Mount Goldsworthy's crushing, screening, stockpiling and shiploading operations, Finucane Island, Port Hedland, Western Australia.

below: Loading iron ore at Iron Springs mine, operated by Utah since 1943. Blast hole drill in background.

construction work and installation of additional equipment are nearing completion. Marcona's output capacity will be enlarged by this program, with the product "mix" upgraded to increase the production of pellets and fine grind concentrates by 700,000 tons and 2 million tons, respectively, per year. $11 million of the total new investment cost is financed by a credit from the Export-Import Bank of the United States. The target date for completion of the expansion project is June 1972.

The Waipipi iron sands project in New Zealand, in which Marcona (N.Z.) Company holds a 75% interest, came into production with a small volume of shipments late in the year. There was an operating loss for 1971 because the startup costs incurred were charged against revenues. Mining and concentration of the New Zealand iron sands is accomplished by a combination of hydraulic dredging and magnetic and gravity separation units operating in tandem. The resulting concentrates are drained and stockpiled. For shipment the concentrates are re-mixed with water and pumped through a pipeline for loading onto ocean carriers of special design moored to a singlepoint buoy in deep water offshore. This procedure is an application of the Marconaflo concept, originated and developed by Marcona technicians.

At the Mount Goldsworthy mine in Western Australia Utah Development Company's one-third share of total iron ore shipments was 2.183 million tons, approximately 8.5% above the 2 million tons shipped in 1970. Production costs increased, due principally to increased stripping ratios, rising wage rates and expense incurred in mineral exploration. These factors, combined with a change in the relative values of Australian and United States currencies, reduced earnings below the levels achieved in 1970.

Site work and procurement of equipment are in progress to expand capacity of the Mount Goldsworthy project by 2 million tons annually in order to fulfill additional long-term iron ore sales contracts. The new and previous contracts call for delivery of an aggregate of 8 million tons of iron ore each year starting in 1973.

Iron ore reserves available for mining by the Mount Goldsworthy co-venturers are increasing. Deposits estimated at 44 million tons of high grade ore, known as the Sentinel reserves and located near the Shay Gap and Kennedy Gap reserves already held by the Mount Goldsworthy group, are being acquired. In addition, all three members of the Mount Goldsworthy co-venture entered into a new joint venture agreement with other parties for the exploration of iron ore deposits in extensive areas of Western Australia with a view to their ultimate development. Results of drilling of the principal deposit, known as McCamey's Monster, have indicated the presence of significant reserves of good grade ore, and detailed studies have been authorized by the joint venturers, McCamey's Iron Associates, to determine the feasibility of bringing them into commercial production.

Uranium

Utah's Lucky Mc mine and mill, located in the Gas Hills area of Wyoming, began production of U_3O_8 (uranium oxide) in 1958 and has since been in continuous operation except for maintenance purposes. The Shirley Basin project commenced as an underground mine in 1960 and was subsequently converted to solution mining. In 1970 the solution mining operation was discontinued and uranium ore was produced from a new open pit and processed in a new mill erected at the site and activated early in the 1971 fiscal year.

2.96 million pounds of U_3O_8 were shipped from the Lucky Mc and Shirley Basin mills during the year. This total was 13.5% above the 2.61 million pounds shipped in 1970 when at Shirley Basin the solution mining operation was being phased out and

above: Iron-bearing sands in New Zealand are mined by hydraulic dredge (foreground) and passed through pipeline to floating concentrator (background) for magnetic and gravity separation.

below left: Marcona Mining Company's current expansion program nears completion with additions to its iron ore processing and beneficiation facilities in Peru.

below right: *San Juan Voyager,* one of Marcona's three 130,000 dwt combination ore-oil carriers, discharging a cargo of oil at San Pedro, California.

the new mine pit and mill were still under development.

Earnings from uranium operations were slightly under 1970 levels. Lucky Mc ore mined during the year was generally of a lower grade than had been previously mined and was below the normal mill feed grade. Ore of normal mill feed grade is expected to be produced from mining operations in 1972.

Unstable pit conditions at the Shirley Basin mine complicated by unusually high precipitation reduced ore deliveries to the mill and increased stripping requirements. Remedial action consisted primarily of enlarging the pit in order to reduce the angle of the pit wall, remove displaced material and expose the ore to be mined. Additional heavy equipment was committed to this work. At the year's end the situation had been substantially corrected and both mine and mill were close to normal operating conditions. It is expected that the output of the Shirley Basin mill in 1972 will approximate its design capacity of 2.2 million pounds of U_3O_8.

The total planned production of the Lucky Mc and Shirley Basin mills, amounting to 4.3 million pounds of U_3O_8 annually at their combined output capacity, has been sold on firm contracts for delivery during the next four years and more than 2.7 million pounds have been sold for delivery subsequent to the 1975 fiscal year. It is expected that the demand for nuclear fuels will rise in the last half of the decade, and that U_3O_8 will accordingly command higher prices during that period.

Copper

The company's interests in copper are represented by its new Island Copper mine and concentrator, located at the north end of Vancouver Island, British Columbia, Canada, where operations commenced late in the 1971 fiscal year, and by its 25% equity in Pima Mining Company which has operated a mine and mill near Tucson, Arizona since 1956.

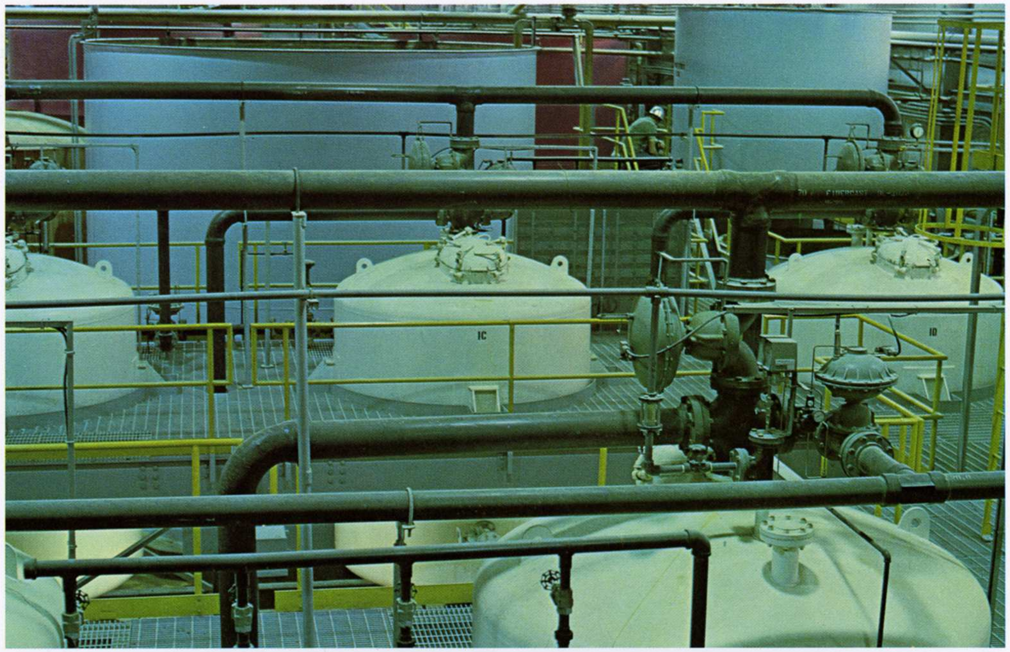
Copper concentrates were first produced from the Island Copper mine and mill in October 1971, on schedule, as the culmination of two and a half years of intensive planning and construction. The start-up was gradual, progressing by increments as the six 32′ by 14′ autogenous grinding units, among the largest in the world (see centerfold), were completed in sequence and successively brought into operation. As of November 1, 1971 about half of the mill facilities and equipment was fully installed and operating. The remainder will be in production by the 1971 calendar year end.

The completed mill, or concentrator, will have the capacity to process 33,000 tons of ore daily, and an annual output capacity of 230,000 tons of concentrates containing 55,000 tons of copper metal and 1,800 tons of molybdenum concentrates.

Associated with the molybdenum are significant quantities of the rare element rhenium, currently in demand for use with platinum in the production of bi-metal catalysts used in petroleum refining. Its presence should enhance the value of the molybdenum concentrates produced. The feasibility of extracting the rhenium and marketing it separately is under study, and if the conclusions are favorable consideration will be given to the construction and operation of a process plant for rhenium separation and production of technical grade molybdic oxide.

100% of Island Copper's production of concentrates during its first five years of operation, and 63.6% during the second five year period, have been contracted for by Japanese smelting companies. Prices are based on London Metals Exchange quotations at the time of shipment. The first cargo of concentrates was shipped in December 1971.

The nearby town of Port Hardy experienced substantial growth as the mine and mill approached completion and full operation. To assure the availability of adequate and suitable living accommodations for project employees and their families a new and professionally planned community was developed as an integral



above: Ion exchange section of uranium processing mill at Shirley Basin. Tanks and pipes are color coded to identify functions.

below left: Analysis to detect impurities in concentrates is an exacting laboratory task at Shirley Basin uranium mill.

below right: After agitation in uranium precipitation tank at Shirley Basin mill, product is thickened, filtered and dried for shipment as U_3O_8.

part of the existing town. The housing subdivision consists of apartments, houses, duplexes and townhouses. Additional units are to be constructed as required. Through the efforts of Utah, the government of British Columbia and the town of Port Hardy, schools, paved streets and underground utilities have been provided, and a secondary sewage treatment plant has been installed with sufficient capacity to serve both the old and new sections of Port Hardy.

Pima Mining Company ships its concentrates to custom smelters in the United States. Sales of copper metal amounted to 125 million pounds and were at the same levels as in 1970. However, Utah's share of Pima's earnings, after provision for distribution taxes, was $3.7 million, lower than the $4.9 million realized in 1970 primarily because of a decline of approximately 6.5 cents a pound in the price of copper.

Expansion of Pima's facilities to a mill capacity of about 53,500 tons of ore per day from its former capacity of 39,000 tons was under way and nearing completion. In terms of contained copper metal Pima's output will be thereby increased by approximately 23% from 130 million pounds per year to 160 million pounds.

Ocean Shipping

As a means of assuring and controlling the availability of ocean carriers for the movement of iron ore mined in Peru to world markets, Marcona inaugurated regular shipping operations on a charter basis in 1953 and the first owned vessel was acquired in 1955. Profitability of the growing fleet was enhanced with the design and construction of combination ore-oil carriers having the capability of earning substantial backhaul revenues. Extended to world-wide commerce and the transportation of other bulk commodities in addition to iron ore and oil, Marcona's shipping arm became a separate and significant source of profits. In recent years shipping earnings have equalled or exceeded earnings from the iron ore mining operation on which the decision to develop the means of ocean transport was originally based.

The Marcona fleet now consists of ten vessels having an aggregate deadweight of 890,000 tons, of which nine are combination ore-oil carriers, capable of transporting full cargoes of either commodity. All of these carriers were constructed in Japanese shipyards. Additions to the fleet by time and spot charters bring to approximately 2.7 million tons the total deadweight capacity of the vessels available to Marcona for operation by its shipping subsidiary, Marcona Carriers Ltd.

Marcona's ocean shipping operations provided an exceptionally high contribution to earnings in 1971, far more than offsetting the loss of earnings from mining activities during the year. In late 1970 and early 1971 tanker tonnage was in critically short supply and rates rose rapidly for both time and voyage charters in the oil trades. The combination carriers operated by Marcona, whether owned or time chartered, were diverted to the movement of oil at extremely favorable rates. For the movement of ore, replacement tonnage in dry cargo vessels was chartered at the prevailing lower rates.

Oil traffic by the Marcona fleet rose to 41.5 billion ton miles in 1971 at the higher charter rates as compared with 28.1 billion ton miles in 1970 when rates were at a fraction of the levels realized in 1971. This resulted in record high earnings from shipping operations, and the earnings of Utah International benefitted accordingly to the extent of its 46% interest in Marcona. Certain of the high-rate time charters in oil will continue into the calendar year 1972, and some until the end of the year.

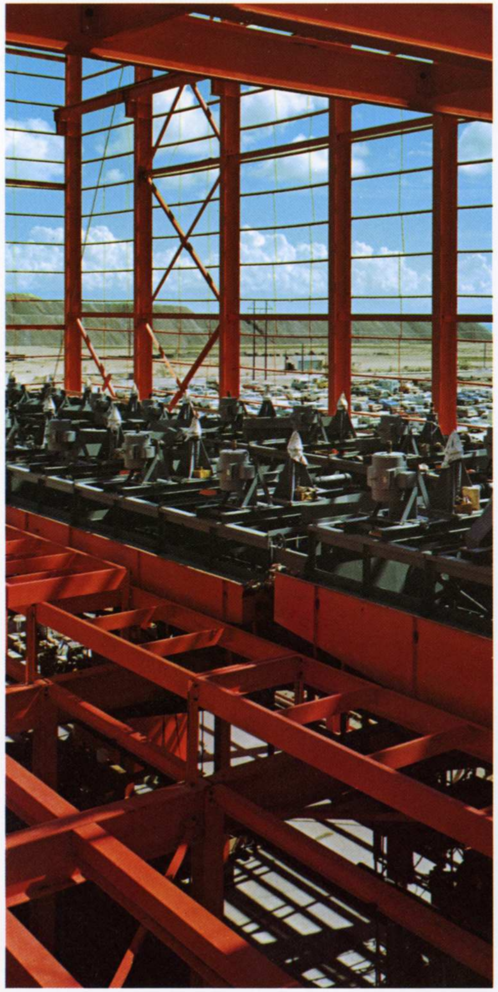
Total fleet traffic was higher in 1971, rising to 136 billion ton miles from 130 billion in 1970. Marcona's shipping earnings in 1972 and future years will be influenced by the volume of iron ore, oil and bulk commodities

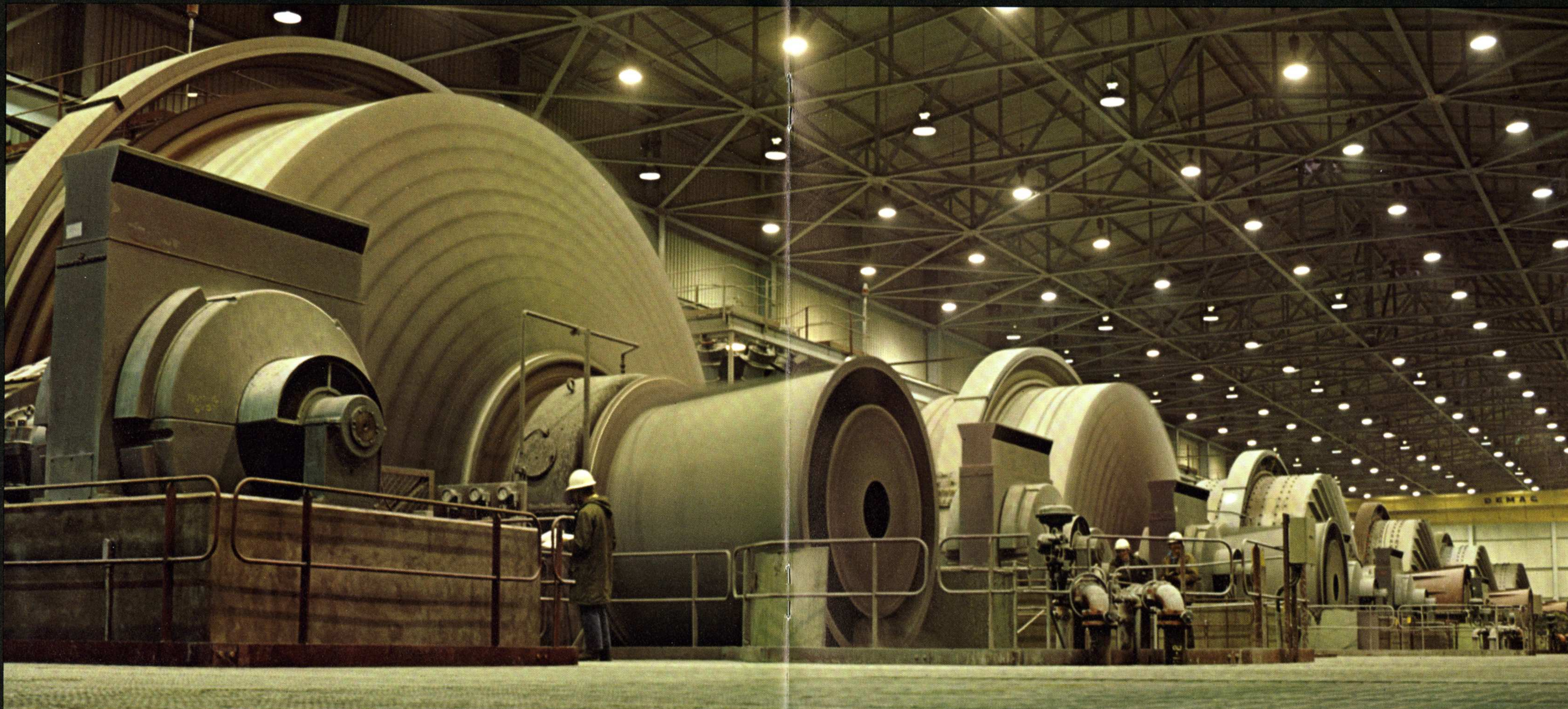
left: Flotation machines are installed to expand concentrating capacity at Pima Mining Company's copper mine in Arizona.

above right: 168 flotation cells each of 300 cubic feet capacity recover copper from ore pulp at Island Copper concentrator.

below right: New subdivision in town of Port Hardy, British Columbia, overlooking Queen Charlotte Straits, is home for employees at Utah's Island Copper mine and mill.

center fold: At Island Copper concentrator six 32′ x 14′ autogenous grinding mills driven by 36,000 horsepower reduce ore to a fine size for copper recovery.

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moving in international commerce and the availability of large ocean carriers to transport them.

Exploration

A continuing and aggressive program of mineral exploration and development is conducted by Utah as a matter of longstanding policy. Existing mining operations can be extended beyond the periods of years initially projected only by the augmentation of accessible reserves. Successful new mining projects can be undertaken only after new and adequate deposits of minerals and fuels have been discovered and the technical and economic feasibility of mining them have been fully and correctly evaluated. A highly qualified staff is engaged in this work. The new mining projects and the enlargement of existing mining operations in Utah's current expansion program evidence the soundness of the policy of substantial expenditures in the search for deposits of new minerals and for increased reserves to support existing operations.

During 1971 exploration activities were conducted mainly in the United States, Canada, Australia and the Solomon Islands. The principal efforts were directed at copper, uranium and coking coal. Several areas were under active investigation for porphyry copper deposits in the Western United States and on Vancouver Island in British Columbia. Areas of uranium mineralization in the United States discovered during the year appear to be attractive but will require considerable drilling and analysis to determine their economic potential. A geological survey, coupled with preliminary drilling, was undertaken to evaluate a possible coking coal deposit in British Columbia.

The search for new reserves of uranium ore was extended to Australia during the year. Utah Development Company acquired a joint venture interest with other United States and Australian companies in a program of exploration for uranium ore in the Northern Territory. Utah Development Company's interest in the venture, initially 11%, may be increased to as much as 20% upon the occurrence of stipulated conditions and the payment of certain costs as the venture progresses.

As already noted, Utah Development Company and its co-venturers are engaged in intensive investigations to develop additional reserves of coking coal in the Saraji and Norwich Park areas of central Queensland, and iron ore in the McCamey's Monster prospect and elsewhere in Western Australia.

Advanced techniques and the most modern equipment are employed in the exploration program which will remain an important factor in Utah's forward planning for its mining operations.

Construction

Utah International terminated and discontinued its remaining construction operations prior to the end of the 1971 fiscal year. Dredging work under contract was completed and all of the dredges were sold at a gain of $1,355,000, reported as an extraordinary income item. Including the gain on the sale of the dredges, profits from construction activities were at approximately the same level as in 1970.

The company no longer engages in the construction business. No further revenues or income will be received from construction activities except as may arise from contract price adjustments relating to projects completed in prior years.

Utah continues its interest as a limited partner with Haas & Haynie Corporation in building and specialty construction. Operations by the limited partnership were profitable in 1971, and Utah realized a satisfactory return on its share of the partnership investment. As of October 31, 1971 the limited partnership's backlog of uncompleted construction work amounted to $54 million as compared with $49 million a year earlier.

Land Development

Land development operations, depressed in 1970 because of a sluggish real estate market, showed revived activity in 1971. Earnings rose sharply, more than doubling the results recorded in the previous year. Several major sales were closed in the fourth quarter and accounted for most of the profit improvement.

At the South San Francisco In-

Exploration activities in Wyoming carry on during adverse weather conditions.

dustrial Park, started by Utah in 1955 and initially consisting of 340 acres of land, three sales were closed, involving 12 acres and reducing the company's remaining holdings to four acres on two improved sites.

Substantial profits were booked on payments received on the sale of the balance of the Moraga property in Contra Costa County, California. Originally consisting of 4098 acres, first acquired by Utah in 1953, all of the Moraga land has now been sold subject to future installment payments scheduled over a period of years and secured by first trust deeds.

Earnings of the South Shore Shopping Center rose by 40% as a result of income from new ground leases and higher rentals based on percentage of sales provisions in existing leases. Of the 11.2 acres of saleable land not integral to the shopping center a total of 8.7 acres was sold during the year at a substantial profit. Among the more significant additions to the center in 1971 were a bank and a savings and loan association, and the expansion of a unit of a major drug store chain was begun.

Sales at Vandenberg Village, located near Vandenberg Air Force Base in Southern California, included 49 houses and 40 lots. Three new small subdivisions are being developed in anticipation of a continuing demand for housing in the area. Membership increased in the golf and country club which is central to this development.

Utah's Pauma Valley project, a private country club and community of exceptional quality developed in San Diego County, experienced sound growth in 1971. Of 36 condominium residence units constructed during the year, 26 had been sold and one sale was in escrow at the year end. In addition 13 lots and one small rancho were sold, and construction of 11 houses and cottages had been completed or started during the year.

Other properties held by the company for investment or for sale continued profitable, but at a lower level than in the prior year. The company's major remaining unimproved landholding, consisting of 914 acres comprising the Bay Farm Island property in Alameda, California is in the pre-development planning stage.

Sales consummated in 1971 were from inventories of land which had been improved and prepared in prior years. There were no new land acquisitions during the year and as a result there has been some depletion of inventories of immediately marketable property. It continues to be the company's policy to seek favorable opportunities in unimproved acreage which is strategically located in relation to growing markets, and amenable to development as attractive and desirable property.

Lower income from land development activities is anticipated in the coming year. Delays in obtaining necessary zoning revisions have prevented us from marketing the Bay Farm Island property. Our inventory of readily saleable developed land at other locations is at low levels.

Schedule of Principal Land Projects

above: Tree lined fairways provide open vistas at Village Country Club and Vandenberg Village in Santa Barbara County, California.

below left: Recreational area with pools and putting green is central to new condominium development in Pauma Valley.

below right: Offices of Great Western Savings & Loan Association have been completed at South Shore Center, Alameda, California.

Continuing programs to protect and restore environmental conditions affected by its operations have been conducted by Utah International. A full time Director of Environmental Quality, who is trained and experienced in the field and reports directly to the president of the company, has been added to Utah's staff to assist and advise management and operating divisions.

An example of the company's environmental protection activities is found at the Navajo mine in New Mexico. In 1958 a comprehensive photographic survey was made to record the condition of the leasehold area prior to mining operations. The site is remotely located and has an arid climate, being desert by definition because of the scanty rainfall, thin soil and sparse vegetation. Much of the area is barren, with large sections of badlands, and frequently cut by arroyos and dry washes. Only two trees were found on the 31,000 acre leasehold before mining was commenced.

Prior to opening the mine Utah contracted with the Division of Anthropology of the Museum of New Mexico to conduct a survey to locate and investigate any sites of anthropological, archaeological and historical significance and to recover artifacts of interest and value. An extensive report on the findings and results of this survey was published by the Museum in 1962. Under a later contract with Utah the Museum maintains a continuing and similar survey ahead of the mining operations.

The present land reclamation program performs a dual function at the Navajo mine. Four thousand tons of bottom ash and fly ash a day, the residues of coal combustion at the power plant, are hauled by Utah to mined out areas and completely buried under overburden material previously removed. The area is regraded to a slightly undulating surface which resembles the contours and topography of surrounding undisturbed land. Natural revegetation is becoming re-established in the reclaimed areas and with the aid of qualified independent consultants Utah is endeavoring to supplement and accelerate this process. The photographs appearing on page 5 depict the surface conditions before and after mining, and after regrading work has been performed.

Utah's new copper mine in British Columbia is an open pit operation as distinguished from the strip mine methods employed at Navajo. Standards and measures for pollution control and preservation of natural environmental conditions in the vicinity of the mine and mill site were devised and adopted in cooperation with the provincial and federal governments. An extensive investigation established water quality and the ecological status of Rupert Inlet prior to operations and tailings disposal. With the commencement of operations an elaborate system of monitoring conditions of marine organisms, fish life, water quality, tailings settlement and other environmental factors was inaugurated. These procedures are periodically reviewed by scientists from the University of British Columbia and the data collected is regularly reported to the provincial and federal pollution control authorities. This program is one of the most extensive of its kind in the mining industry, and should contribute measurably to a better understanding of the environment as well as to its protection, both at the Island Copper project and at similar operations elsewhere.

Environmental protection measures, tailored in each case to the nature of the terrain and of the mining operation and the local conditions requiring consideration, have been similarly adopted by Utah International at other of its mining ventures.

In its land development operations Utah maintains high environmental standards, upgrading local zoning requirements by special covenants governing the development and maintenance of both residential subdivisions and industrial parks.

above left: Navajo girl, a Utah employee, gives assistance to team of archaeologists from Museum of New Mexico. Dragline and blast hole drill in background.

below left: Navajo artifacts from Chaco culture, *circa* A.D. 1000, recovered by Museum of New Mexico in archaeological survey prior to opening of mine and construction of power plant facilities.

right: Technicians from Island Copper laboratory collect water specimens for analysis as part of environmental monitoring system.

1971 was characterized by the highest level of capital spending in the company's history. Consequently, there were significant changes in the financial structure of Utah International as the rate of new investment in its $300 million expansion program reached its peak. Capital expenditures during the year, for the inauguration of major new mining projects and the expansion of nearly all existing mines, totalled $151 million.

To finance these requirements, the company utilized internally generated funds and its inventory of marketable securities which remained at the end of 1970, and increased its unsecured borrowings under prearranged credits by $120 million. The increase in borrowings was in the form of additional loans from Australian banks, from the Eurodollar market, and from the domestic and Canadian banking communities. Additionally, the long-term insurance company loan was increased by $15 million, and a credit with the Export-Import Bank of the United States was placed in operation. For 1972 there will be further takedowns under existing credit arrangements to finance required expenditures under approved capital programs. But with capital expenditures scheduled at $64 million in 1972 and $7 million in 1973, new loan takedowns will not approach the high levels experienced in 1971. Additional funds that may be required to service the company's debt and dividends to shareholders, and finance other cash requirements of the company's business are expected to be adequately supplied from operational cash flow.

Also in 1971 the voluntary conversions of the 5¾% subordinated guaranteed debentures due September 15, 1983, of Utah International Finance Corp. into the common stock of Utah International continued at a high rate. As of the beginning of the year, $15.0 million of the original $30 million face value remained outstanding. Conversions during 1971 retired $8.8 million of these debentures, leaving a balance of only $6.2 million at the beginning of fiscal 1972. In effecting these conversions, 235,525 shares of Utah International Inc., having a par value of $471,050, were issued, and an increase in paid-in capital of approximately $8 million was recorded. The dilution factor which can be attributed to the 168,871 shares of common stock of Utah International reserved for conversion of the remaining debentures in this series is relatively minor, and the company now reports its earnings with emphasis on the fully diluted basis.

On October 7, 1971, the shareholders of Utah International approved a merger with Eccles Investment Company, the assets of which at the time of the merger consisted of Utah stock and some cash. The net effect of this transaction was to reduce the issued common stock of Utah by 21,819 shares and to require a corresponding reduction in the common stock account by the aggregate par value of the shares retired, and a like increase in the company's capital surplus account.

Stockholders' book equity interest rose from approximately $207 million at the beginning of the fiscal year to $241 million at the close of the period, resulting in an annual increase second only to the performance of the previous year, when the issue of Utah Development Company shares and debenture conversions contributed significantly to the equity accounts.

In the fiscal year just ended a number of events served to unsettle the international financial environment. There were economic impacts on the relative trading positions of many countries, the cost of purchasing most major currencies moved upward, and interest rates on the Eurodollar market fluctuated sharply. All of these factors have had or are expected to have some influence upon the financial planning of Utah International Inc. Uncertainty remains concerning the international economic balance which will be achieved, and it is not possible to make an accurate assessment of the situation at this time. However, in those countries where Utah and its affiliates incur costs in foreign currencies, primarily Canada, Australia and Peru, the extent to which exchange rates varied during the year has not had an important influence on profits. Any adverse effect of high costs of Eurodollar borrowing was effectively minimized by a flexible borrowing program which provided alternate sources of funds for the short time that these high rates prevailed.

Statement of Consolidated Income for the years ended October 31:

	1971	1970
	(Amounts in thousands)	
Income:		
Gross revenues from operations (Note 8)	$104,436	$ 88,776
Costs and expenses	70,829	58,774
Gross profit from operations	$ 33,607	$ 30,002
Equity in net income of —		
Affiliates (Note 1)	17,823	12,938
Joint ventures and limited partnership (proportionate share of gross revenue approximately $24 million for 1971 and $32 million for 1970)	570	845
Interest	2,779	5,832
Other, net	949	127
Gross profit and other income	$ 55,728	$ 49,744
Expenses:		
General and administrative	$ 4,520	$ 4,018
Interest (Note 5)	2,943	3,947
Provision for employees' retirement plan	763	650
Minority interest in net income of subsidiary	926	452
	$ 9,152	$ 9,067
Income before income taxes, discontinued operations and extraordinary item	$ 46,576	$ 40,677
Provision for income taxes (Note 3)	13,059	12,395
Income before discontinued operations and extraordinary item	$ 33,517	$ 28,282
Income from discontinued operations (net of income taxes) (Note 9)	629	1,991
Income before extraordinary item	$ 34,146	$ 30,273
Extraordinary item (net of income taxes) (Note 9)	1,355	—
Net income	$ 35,501	$ 30,273
Earnings per common share (Note 10):		
Income before discontinued operations and extraordinary item	$ 2.36	$ 2.12
Income from discontinued operations	.04	.15
Extraordinary item	.10	—
Net income	$ 2.50	$ 2.27
Earnings per common share assuming full dilution (Note 10):		
Income before discontinued operations and extraordinary item	$ 2.32	$ 1.97
Income from discontinued operations	.04	.14
Extraordinary item	.09	—
Net income	$ 2.45	$ 2.11

The accompanying notes are an integral part of this statement.

Utah International Inc.
and Subsidiaries

Consolidated Balance Sheet — October 31:

Assets	1971	1970
	(Amounts in thousands)	
Current assets:		
Cash	$ 8,139	$ 7,072
Marketable securities, at cost which approximates market	—	11,543
Accounts and notes receivable	14,629	8,381
Current portion of long-term receivables	4,523	829
Inventories, at the lower of average cost or market	15,349	10,559
Prepaid expenses	3,184	4,931
Total current assets	$ 45,824	$ 43,315
Investments:		
Affiliated companies (Note 1)	$ 95,122	$ 84,852
Equity in joint ventures and limited partnership	1,563	2,617
Land and real estate, at cost —		
Real estate held for development and sale	32,590	34,741
Land and improved real estate held for investment, less accumulated depreciation of $3.3 million in 1971 and $3.0 million in 1970	12,008	12,431
	$141,283	$134,641
Long-term receivables, net of current portion:		
Loans for construction of railroad and power facilities	$ 41,420	$ 20,597
Other	29,862	27,299
	$ 71,282	$ 47,896
Equipment and facilities, at cost:		
Mining lands, leases and development costs	$ 54,859	$ 14,610
Mining equipment and facilities	230,967	82,904
Mining facilities under construction and pre-mine development	32,835	74,101
Other	3,696	7,405
	$322,357	$179,020
Less — Accumulated depreciation and depletion	51,962	44,196
	$270,395	$134,824
	$528,784	$360,676

The accompanying notes are an integral part of this statement.

Liabilities and Stockholders' Equity	1971	1970
	(Amounts in thousands)	
Current liabilities:		
Bank loans and current portion of long-term liabilities	$ 3,327	$ 5,457
Accounts payable	18,404	10,876
Accrued liabilities	12,065	7,677
Accrued income taxes	4,935	5,500
Total current liabilities	$ 38,731	$ 29,510
Long-term liabilities, net of current portion (Notes 4 and 5):		
Unsecured	$182,483	$ 72,279
Assessment liens, purchase money obligations and other notes, secured only by related land and real estate	23,977	23,870
	$206,460	$ 96,149
Deferred credits:		
Deferred income taxes	$ 33,343	$ 20,632
Deferred revenue and other	4,909	3,698
	$ 38,252	$ 24,330
Minority interest in subsidiary	$ 4,117	$ 3,192
Contingent liabilities and commitments (Note 6)		
Stockholders' equity:		
Preferred stock, without par value —		
Authorized —1,000,000 shares; issued — none	$ —	$ —
Common stock, par value $2 per share (Notes 5 and 7) —		
Authorized — 20,000,000 shares		
Issued — 14,321,748 shares in 1971 and 14,100,215 shares in 1970	28,644	28,200
Paid-in capital	62,840	54,385
Retained earnings, including equity in undistributed earnings of affiliates (Notes 1 and 4)	149,743	124,912
Treasury stock, at cost — 231 shares in 1971 and 200 shares in 1970	(3)	(2)
	$241,224	$207,495
	$528,784	$360,676

Utah International Inc.
and Subsidiaries

Statement of Consolidated Stockholders' Equity for the years ended October 31, 1971 and 1970

(Dollar amounts in thousands)

	Retained Earnings (Notes 1 and 4)	Paid-in Capital	Common Stock Shares (Notes 5 and 7)	Common Stock Amount
Balance, November 1, 1969	$103,375	$ 347	12,917,142	$ 25,834
Add:				
Net income	30,273	—	—	—
Common stock issued upon conversion of debentures	—	36,605	1,178,206	2,356
Common stock issued to employees as restricted stock bonuses	—	223	4,867	10
Excess of consideration received from issue of 10% equity interest in subsidiary company over net book value of such interest	—	17,210	—	—
Deduct — Cash dividends of $.65 per share	(8,736)	—	—	—
Balance, October 31, 1970	$124,912	$ 54,385	14,100,215	$ 28,200
Add:				
Net income	35,501	—	—	—
Common stock issued upon conversion of debentures	—	8,025	235,525	471
Common stock issued to employees as restricted stock bonuses	—	390	7,827	16
Deduct — Cash dividends of $.75 per share	(10,670)	—	—	—
Reduction in shares outstanding resulting from merger (Note 11)	—	40	(21,819)	(43)
Balance, October 31, 1971	$149,743	$ 62,840	14,321,748	$ 28,644

The accompanying notes are an integral part of this statement.

Statement of Changes in Consolidated Financial Position for the years ended October 31:

	1971	1970
	(Amounts in thousands)	
Working capital was provided from:		
Operations —		
Net income	$ 35,501	$ 30,273
Add: Expenses not requiring outlay of working capital —		
Depreciation, depletion and amortization (unit-of-production, straight-line and declining-balance methods)	8,356	6,815
Provision for deferred income taxes	13,853	8,765
	$ 57,710	$ 45,853
Deduct: Income not providing working capital — undistributed equity in net income of affiliates, joint ventures and limited partnership	(10,686)	(7,262)
Working capital provided from operations	$ 47,024	$ 38,591
Long-term borrowings	123,267	23,691
Sale of noncurrent assets	8,878	1,556
Proceeds from sale of 10% equity interest in subsidiary	—	19,950
Common stock issued upon conversion of debentures	8,496	38,961
Other	1,177	1,987
Total funds provided	$ 188,842	$ 124,736
Working capital was used for:		
Additional investment in —		
Equipment and facilities	$ 145,670	$ 78,169
Long-term receivables	23,386	19,826
Land and real estate	3,092	3,301
Payments of long-term liabilities	4,240	4,141
Cash dividends paid to stockholders	10,670	8,736
Conversion of debentures to common stock	8,496	38,961
Total funds used	$ 195,554	$ 153,134
Net decrease in working capital	$(6,712)	$(28,398)
Working capital increase (decrease) by component:		
Cash and marketable securities	$(10,476)	$(21,572)
Receivables	9,942	(1,486)
Inventories and prepaid expenses	3,043	4,359
Bank loans and current portion of long-term liabilities	2,130	(1,966)
Accounts payable	(7,528)	(6,463)
Other current liabilities	(3,823)	(1,270)
	$(6,712)	$(28,398)

The accompanying notes are an integral part of this statement.

NOTE 1. Principles of Consolidation

The consolidated financial statements include the accounts of Utah International Inc. (Utah Construction & Mining Co. prior to October 18, 1971) and all subsidiary companies ("Utah"), after elimination of significant intercompany items and transactions. In addition, the statements include Utah's equity in the net income of affiliated companies in which Utah does not have a majority interest. Equity in such earnings is recorded based upon the affiliates' audited financial statements as of their most recent fiscal year-end and upon subsequent interim reports submitted by the respective companies. An appropriate provision for related income taxes payable on such earnings when distributed has been made in the accompanying consolidated financial statements.

The following is a summary of the unaudited financial statements of Marcona Corporation (Marcona), Utah's most significant affiliate, and of all affiliates combined as of October 31, 1971 (in thousands):

	Marcona Corporation (46% Owned)	Total Affiliates
Current assets	$ 66,594	$110,844
Other assets	206,269	333,142
	$272,863	$443,986
Current liabilities	$ 46,452	$ 67,783
Long-term liabilities	51,665	122,740
Stockholders' equity	174,746	253,463
	$272,863	$443,986
Sales	$243,098	$329,413
Net income	36,850	56,429
Utah's recorded share of —		
Stockholders' equity	$ 68,296*	$ 95,122
Net income for year	13,439*	17,823

*After an exclusion for estimated taxes payable by Marcona upon distribution of earnings by its subsidiaries for which no reserve has been provided on its books.

The composition of Utah's investment in all affiliated companies at October 31, 1971, is as follows (in thousands):

Equity in undistributed earnings of affiliates —	
Included in retained earnings	$73,531
Included in liability for deferred income taxes, payable upon distribution of earnings	6,778
	$80,309
Cost of investments	14,813
	$95,122

NOTE 2. Currency Translation

The accounts of foreign branches, subsidiaries and affiliates have been translated to U.S. dollars at the exchange rates in effect at the respective year-ends, except for (a) equipment and facilities accounts which have been translated at the exchange rates in effect at the dates of acquisition, and (b) stockholders' equity, income and expense accounts which have been translated at the exchange rates in effect when transactions occurred. Fluctuations in these exchange rates had no significant effect upon the accompanying consolidated financial statements.

In August, 1971, President Nixon announced new economic measures and policies which have caused most foreign currencies to have greater value in relation to the U.S. dollar. The extent of any further changes in currency relationships is not readily determinable at this time. Since in its foreign mining operations Utah incurs costs in local currencies, while its sales revenues are received in U.S. currency, operating margins could be affected as a result of any further changes in currency relationships. In the opinion of management, future transactions in foreign currencies will not have any material adverse effect upon Utah's business taken as a whole.

NOTE 3. Income Taxes

A substantial portion of Utah's income is derived from dividends and earnings from mining operations (with a resulting depletion allowance in excess of cost depletion, as permitted by the U.S. Internal Revenue Code), both of which are taxed at effective rates lower than those applicable to ordinary income. Utah follows the practice of deferring the amount of the investment credit and amortizing it over the average lives of the respective assets. The investment credit had no significant effect upon the statement of consolidated income.

The provisions for income taxes consist of the following (in thousands):

	1971	1970
Taxes currently payable	$ 1,224	$ 5,921
Deferred income taxes	13,853	8,765
Less taxes applicable to —		
Discontinued operations	(683)	(2,291)
Extraordinary item	(1,335)	—
	$13,059	$12,395

NOTE 4. Restriction of Retained Earnings

Utah's long-term agreements with lending institutions contain restrictive provisions on certain payments unless Utah has adequate consolidated retained earnings (as defined). Such provisions include limitations on the payment of cash dividends and on the purchase or redemption of outstanding capital stock and convertible debentures. Retained earnings in the amount of $38,908,000 were free of such restrictions at October 31, 1971.

NOTE 5. Long-Term Liabilities

Long-term liabilities at October 31, 1971 and 1970, consist of the following (in thousands):

	1971	1970
Unsecured —		
5½% notes payable to insurance company	$ —	$33,500
7.60% notes payable to insurance company, due in varying installments from 1974 to 1988	50,000	—
Eurodollar notes, 6.75%-10.75%, due from 1973 to 1977*	65,700	15,000
5¾% subordinated guaranteed debentures issued September, 1968, and due in 1983	6,243	14,959
6%-8% notes payable to banks, due in varying installments from 1972 to 1978*	60,540	8,820
	$182,483	$72,279
Assessment liens, purchase money obligations and other notes** —		
5¾%-7% assessment liens, due in varying installments to 1990	$ 20,346	$19,186
5%-7½% notes and contracts, due in varying installments to 1987	2,811	3,696
4% purchase money obligations, due in varying installments to 1973	820	988
	$ 23,977	$23,870
Total	$206,460	$96,149

*Interest rates on most notes change with the applicable prime rate and range from prime to 1% above prime.

**Assessment liens and purchase money obligations, including notes and contracts payable on land purchases, are secured only by the related land and real estate and do not represent claims against other corporate assets.

The 5¾% Subordinated Guaranteed Debentures of Utah International Finance Corp. (a wholly owned subsidiary), due September 15, 1983, are guaranteed on a subordinated basis by the parent company and are convertible into common stock of the parent company at a price of $37 per share, subject to adjustment under certain conditions. The debentures may be redeemed prior to maturity by payment of a premium beginning in 1973.

Utah capitalizes financing costs on identifiable new borrowings made to finance development of mining projects not yet in operation. Such capitalized costs, which amounted to $6,494,000 in 1971, and $1,489,000 in 1970, will be amortized over the productive lives of the properties.

NOTE 6. Contingent Liabilities and Commitments

Utah has agreed to purchase a note on demand. The note is secured by a deed of trust on certain property owned by an affiliate in which Utah has a fifty-percent interest. The balance of the note is approximately $3,600,000 at October 31, 1971.

Utah is in the process of developing or expanding certain mining projects. This program will require an investment of approximately $104 million, of which about $33 million has been expended at October 31, 1971.

Commitments have been obtained by Utah which permit additional borrowings of approximately $52 million from lending institutions outside the United States, and $16 million from lending institutions within the United States. In the opinion of management, proceeds from borrowings together with current working capital and cash generated internally are sufficient to fund mining projects now underway and to finance the other cash requirements of Utah's business.

The taxing authorities in Peru have taken the position that a Marcona subsidiary's operations on a mining concession, assigned from an instrumentality of the Government of Peru, did not qualify it for depletion deductions in computing Peruvian taxable income. In 1969, a Peruvian civil court issued a decision in favor of the subsidiary. However, government authorities appealed this decision and an appellate court issued a decision adverse to the subsidiary in October, 1971. The subsidiary has appealed before the Supreme Court. Peruvian counsel has advised Marcona that, under the terms of an existing agreement, any resulting tax liability would be satisfied by the instrumentality which assigned the mining concession.

Approximately forty percent of the stockholders' equity in Marcona is represented by net assets located in Peru. Historically, prior to the current fiscal year, approximately forty to sixty percent of Marcona's net income has been derived from its Peruvian mining operations; shipping activities have been the primary source of remaining income. During the 1971 fiscal year substantially all of Marcona's net income was derived from its shipping operations, as mining facilities operated at near breakeven levels. This decline in earnings from mining activities is, in part, attributed to reduced production volume caused by several strike interruptions during the year and by the shutdown of the power and pellet plants for maintenance requirements.

Certain lawsuits are pending in the Federal District Court in Arizona and the District Court for San Juan County, New

Mexico, against officials of the U.S. Government and the owners of the Four Corners Power Plant in New Mexico concerning the environmental effects of the plant, which is fueled by coal supplied from Utah's Navajo Mine. Utah considers that these lawsuits are without merit, but has not decided whether it should intervene to assure that its rights and interests are fully protected.

NOTE 7. Reserved Common Stock

At October 31, 1971, 112,306 shares of common stock were reserved for future issuance to officers and key employees as restricted stock bonuses over an indefinite number of years and 168,871 shares were reserved for issuance upon conversion of the 5¾% Subordinated Guaranteed Debentures.

NOTE 8. Revenue

A substantial portion of Utah's gross revenue from operations results from sales of iron ore and coal to Japanese companies under long-term sales agreements. In 1971, such sales were approximately one-half of total revenue. A substantial portion of the output of certain mining projects recently completed or under development is expected to be sold to both Japanese and European customers.

NOTE 9. Discontinued Operations

In 1971, Utah sold substantially all of its dredging assets for $5,970,000 and recorded a net profit of $1,355,000 on the sale, after applicable income taxes of $1,335,000. This transaction has been classified as an extraordinary item in the statement of consolidated income. Accordingly, all revenues and costs (including applicable income taxes) relating to dredging and other discontinued construction activities have been reclassified to "Income from Discontinued Operations" in the statement of consolidated income for both 1971 and 1970. The detail of the reclassification is as follows (in thousands):

	1971	1970
Gross revenues from operations	$2,629	$2,184
Costs and expenses	1,647	2,171
Gross profit from operations	$ 982	$ 13
Income from joint ventures	330	4,269
	$1,312	$4,282
Provision for income taxes	683	2,291
Income from discontinued operations	$ 629	$1,991

NOTE 10. Earnings Per Share

Earnings per common share were computed based upon the weighted average number of shares of common stock outstanding during each period (14,213,529 for 1971 and 13,321,620 for 1970).

Earnings per common share assuming full dilution were determined based upon the assumed conversion of the 5¾% Subordinated Guaranteed Debentures. For purposes of this computation, net income was increased by $91,000 in 1971 and $311,000 in 1970, the amounts of the related interest expense on such debentures, net of income taxes. The adjusted totals of shares outstanding used for this computation were 14,509,604 for 1971 and 14,504,411 for 1970.

NOTE 11. Merger

In October, 1971, the stockholders approved a merger agreement whereby Eccles Investment Company was merged into Utah. Utah exchanged 1,167,466 of its shares for all of the outstanding common stock of Eccles. Through this merger, Utah acquired 1,189,285 shares of its own stock, which was the primary asset of Eccles at the time of the merger; these shares have been retired by Utah according to the terms of the merger agreement. The net effect of the merger was to reduce the number of Utah's outstanding shares by 21,819.

Auditors' Report

To the Stockholders and Board of Directors of
Utah International Inc.:

We have examined the consolidated balance sheet of Utah International Inc. (a Delaware corporation, formerly Utah Construction & Mining Co.) and subsidiaries as of October 31, 1971 and 1970, and the related statements of consolidated income, stockholders' equity and changes in financial position for each of the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain affiliated companies, the investments in which are recorded using the equity method of accounting (see Note 1 to the consolidated financial statements), but were furnished with reports of other public accountants thereon. Our opinion expressed herein, insofar as it relates to the amounts included for such affiliates, is based solely upon the reports of other public accountants.

In our opinion, based upon our examination and the reports of other public accountants, the accompanying consolidated financial statements present fairly the financial position of Utah International Inc. and subsidiaries as of October 31, 1971 and 1970, and the results of their operations and the changes in financial position for each of the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the two years.

San Francisco, California,
December 3, 1971.

ARTHUR ANDERSEN & CO.

Ten Year Comparison (Consolidated)
years ended October 31:

In thousands except per share amounts and number of stockholders.

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Gross revenue[1]	$104,436	88,776	67,353	57,693	40,882	27,438	30,636	31,069	31,802	33,912
Net income:										
Before income taxes	$ 50,578[2]	44,959	34,283[2]	26,081	21,143	17,975	14,551	8,439	7,705	11,871
After income taxes	$ 35,501[2]	30,273	26,723[2]	19,944	16,543	13,175	11,016	7,292	7,085	9,321
Earnings per common share assuming full dilution[3][4]	$ 2.45	2.11	1.93	1.49	1.28	1.02	.85	.57	.55	.72
Dividends paid:										
Cash	$ 10,670	8,736	7,188	6,237	5,590	4,730	4,300	4,085	3,873	3,753
Common stock	—	—	200%	—	—	—	—	—	100%	2%
Per share[3]	$ .75	.65	.56	.48	.43	.37	.33	.32	.30	.29
Common stock:										
Shares outstanding (net of treasury shares)	14,322	14,100	12,917	4,302	4,300	4,300	4,300	4,300	4,302	2,152
Number of stockholders	6,496	6,095	5,501	4,468	4,429	4,265	3,796	3,675	3,343	2,835
Total assets (less applicable reserves)	$528,784	360,676	280,601	257,798	181,964	162,040	138,696	123,693	124,192	125,783
Working capital	$ 7,093	13,805	42,204	55,033	9,820	10,696	6,622	11,970	12,691	13,910
Long-term liabilities	$206,460	96,149	116,481	114,611	52,880	45,282	32,125	32,941	36,984	39,775
Stockholders' equity:										
Net worth	$241,224	207,495	129,555	109,606	95,755	84,802	76,356	69,640	66,480	63,324
Net worth per share[3]	$ 16.84	14.72	10.03	8.49	7.42	6.57	5.92	5.40	5.15	4.90
Note (1) Gross revenue from discontinued operations not included	$ 2,629	2,184	36,487	60,575	72,419	71,015	58,681	28,821	45,954	50,382

Note (2) Net income includes $2,689,000 in 1971 and $2,663,000 in 1969 before income taxes and $1,355,000 in 1971 and $1,844,000 in 1969 after income taxes, attributable to gains on sales recorded as extraordinary items.

Note (3) Per share amounts for all years have been calculated after giving effect to the stock dividends of 200% paid in 1969, 100% in 1963 and 2% in 1962.

Note (4) Earnings per common share assuming full dilution reflect the assumed conversion of debentures which were first issued in 1968. Earnings per common share on weighted average shares outstanding were $2.50, $2.27, $2.07 and $1.55 for the years of 1971, 1970, 1969 and 1968, respectively.

Directors and Officers

Board of Directors:

Ernest C. Arbuckle
Fred J. Borch
Alf E. Brandin
Val A. Browning
Thomas D. Dee II
George S. Eccles
Marriner S. Eccles
William R. Kimball, Jr.
Edmund W. Littlefield
Arjay Miller
Shepard Mitchell
Albert L. Reeves
Paul L. Wattis, Jr.
Alexander M. Wilson

Executive Committee:

Marriner S. Eccles, *Chairman*
Edmund W. Littlefield
Alexander M. Wilson
Alf E. Brandin
Albert L. Reeves

Officers:

Edmund W. Littlefield, *Chairman of the Board and Chief Executive Officer*
Alexander M. Wilson, *President*
Albert L. Reeves, *Senior Vice President and Secretary*
Alf E. Brandin, *Senior Vice President*
Edwin C. DeMoss, *Senior Vice President*
Charles E. McGraw, *Senior Vice President*
Joseph K. Allen, *Vice President*
John S. Anderson, *Vice President*
Weston Bourret, *Vice President*
W. Drew Leonard, *Vice President and Controller*
Charles K. McArthur, *Vice President*
Hollis G. Peacock, *Vice President*
Charles T. Travers, *Vice President*
Keith G. Wallace, *Vice President*
James T. Curry, *Treasurer*

Transfer Agents:

Bankers Trust Company, New York, New York
Crocker National Bank, San Francisco, California
First Security Bank of Utah, N.A., Salt Lake City, Utah

Registrars:

First National City Bank, New York, New York
First Security State Bank, Salt Lake City, Utah
Wells Fargo Bank, San Francisco, California

Head Office:

550 California Street, San Francisco, California 94104

Annual Meeting:

Thursday, February 10, 1972, 10:00 A.M.
The Penthouse Board Room, Wells Fargo Bank
420 Montgomery Street, San Francisco, California